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ANNUAL REPORT

STRAWBRIDGE & CLOTHIER

FISCAL YEAR 1956

Ended February 2, 1957

STRAWBRIDGE & CLOTHIER

ANNUAL REPORT

FISCAL YEAR 1956

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PHILADELPHIA • ARDMORE • JENKINTOWN • WILMINGTON

Board of Directors

DWIGHT G. PERKINS, *Chairman*

ROBERT E. STRAWBRIDGE
FREDERIC H. STRAWBRIDGE
ISAAC H. CLOTHIER, JR.
FRANCIS R. STRAWBRIDGE
J. CLAYTON STRAWBRIDGE
DONALD C. MILLS
ISAAC H. CLOTHIER, 3RD
FRANCIS R. STRAWBRIDGE, JR.
G. STOCKTON STRAWBRIDGE
ROBERT E. STRAWBRIDGE, JR.
RANDALL E. COPELAND
FRANK R. VEALE

Officers

DWIGHT G. PERKINS . . . . . *Chairman of the Board*
G. STOCKTON STRAWBRIDGE . . . . . *President*
J. CLAYTON STRAWBRIDGE . . . . . *Vice-President and Secretary*
ISAAC H. CLOTHIER, 3RD . . . . . *Vice-President*
FRANCIS R. STRAWBRIDGE, JR. . *Vice-President and Assistant Secretary*
DONALD C. MILLS . . . . . *Vice-President and Treasurer*
RANDALL E. COPELAND . . . . . *Vice-President*
ROBERT E. SASS . . . . . *Assistant Treasurer*

Transfer Agents and Registrars

GIRARD TRUST CORN EXCHANGE BANK, Philadelphia, Pa.

TRANSFER AGENT *for the $5 Cumulative Preferred Stock and*
REGISTRAR *for the Common Stock*

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THE FIRST PENNSYLVANIA BANKING & TRUST COMPANY, Philadelphia, Pa.

TRANSFER AGENT *for the Common Stock and*
REGISTRAR *for the $5 Cumulative Preferred Stock*

To Our Shareholders:

By order of the Board of Directors, the Annual Report for the fiscal year ended February 2, 1957, our 89th business year, is submitted herewith. The Report includes a Summary of Income, Statement of Financial Condition, and Statement of Stockholders' Investment certified by Messrs. Ernst & Ernst, our independent public accountants.

Earnings and Operations

Our Net Earnings for 1956 were $1,953,278 compared to $2,285,121 in 1955. Earnings amounted to $2.04 per share of Common Stock compared to $2.46 the previous year, both amounts calculated on the number of shares outstanding at February 2, 1957. The number of shares outstanding at February 2, 1957, included those paid as a stock dividend of 36,603 shares issued March 23, 1956.

The "Lifo" adjustment of inventories amounting to $199,838 decreased earnings this year in the greatest amount since 1950, occasioned by a substantial increase in the Department Store Inventory Price Indexes as determined by the Bureau of Labor Statistics. Although this "Lifo" adjustment decreased net earnings by $92,000, it also reduced our tax obligation in the amount of $108,000.

An unusually cold, wet Spring and an early Easter resulted in a disappointing first half year. This had an unfortunate effect on sales and earnings which was partially offset by a good Christmas season.

On January 30, 1956, the beginning of our fiscal year, we adopted the 4–5–4 method of accounting, which divides the year into 12 periods of 4 and 5 weeks rather than calendar months. Since each comparable period contains the same number of business days, this method normally provides greater comparability of operating figures both for the period and fiscal year to date. However, in certain years, due to the progression of the calendar, it is necessary to have a 53 week year. Nineteen Fifty-six was such a year and as a result, our sales again reached an all-time high.

Once again, in 1956, Philadelphia downtown department stores experienced a decrease in sales volume. It was reported by the Federal Reserve Bank of Philadelphia that for the calendar year this loss was approximately 4%. This decline in sales reflects the continuing impingement of suburban branch store development. In contrast, stores in the eight county metropolitan area increased sales 3%, and in the entire Third Federal Reserve District 4%.

Although faced with intensified competitive conditions, it is a pleasure to report that each of our branch stores, Ardmore, Jenkintown, and Wilmington, experienced a sales increase considerably in excess of that reported for the metropolitan area and the District.

Comparison of the current year's operating results and the disposition thereof, with the previous year, follows:

	1956	*1955*	*Increase Decrease**
Income before "Lifo" adjustment and taxes.	$4,493,116	$5,033,803	$540,687*
"Lifo" adjustment—increase	199,838	58,682	141,156
Income before taxes	4,293,278	4,975,121	681,843*
Taxes on income	2,340,000	2,690,000	350,000*
Net Earnings	1,953,278	2,285,121	331,843*
Cash Dividends on Preferred Stock	382,456	392,410	9,954*
Cash Dividends on Common Stock	768,493	731,934	36,559
5% Stock Dividend on Common Stock	36,603 shares	34,861 shares	1,742 shares
Earnings retained for use in the business	802,329	1,160,777	358,448*

Financial Condition

The sound financial condition of your Company has been well maintained as is indicated in the following statistics:

	February 2, 1957	*January 28, 1956*	*Increase Decrease**
Current Assets	$30,882,122	$29,609,905	$1,272,217
Current Liabilities	9,101,475	8,238,892	862,583
Ratio Current Assets to Current Liabilities	3.39 to 1	3.59 to 1	
Working Capital	21,780,647	21,371,013	409,634
Long-Term Indebtedness	5,110,250	5,500,000	389,750*
Preferred Stock	7,601,700	7,820,300	218,600*
Common Stock Equity	28,361,588	27,567,562	794,026
Book Value per Share of Common Stock on basis of outstanding shares at February 2, 1957	36.90	35.86	1.04

Again, our working capital was at a higher level than at any time in the Company's history; and our ratio of current assets to current liabilities was 3.39 to 1.

Regular quarterly dividends of $1.25 were paid on the $5 Cumulative Preferred Stock. Quarterly dividends of 25 cents were paid on the Common Stock and a 5% stock dividend was paid on March 23, 1956.

The required sinking fund provision on $5 Cumulative Preferred Stock was fulfilled.

In compliance with the terms of our long-term loan agreement with the Philadelphia National Bank and the Penn Mutual Life Insurance Company, the principal amount was reduced by $500,000.00.

Improvements

Continuing our policy of maintaining our properties and store facilities in first class condition, our 8th and 9th furniture selling floors were completely remodeled during the year and today we believe them to be the most attractive in the area. In addition, other departments in all four stores were physically improved.

In contemplation of modernization, presently under study, of our service facilities, demolition has been completed of certain properties on 8th and Filbert Streets which the Company owns. Temporarily this land will be used as a parking lot until its permanent use is determined.

Looking Ahead

In last year's letter, it was reported that we had reached substantial agreement on terms for a new branch store in the Cherry Hill Shopping Center near Haddonfield, New Jersey. We are pleased to report that a long-term lease was signed on April 26, 1956. Construction of the Center will start in the not distant future and we expect to open for business in the Fall of 1958 or in the early Spring of 1959. This store will be substantially larger than any of our present branch units and its opening will provide an opportunity for capturing a larger share of the rapidly growing Delaware Valley consumer market.

During the year, we have completed economic surveys of Philadelphia suburban areas where we are not now represented. These surveys include present and projected population and purchasing power trends and should prove helpful in evaluating future branch store expansion opportunities.

The well diversified business and industrial economy within our trading area should continue at its present high level throughout the year. While it is always difficult to forecast on a long range basis in the retail business, our plans for 1957 indicate that we should be able to maintain our sales volume and through improved operations, produce satisfactory earnings for the year.

In Appreciation

The loyalty, enthusiastic support and accomplishments of our entire Store Family have contributed greatly throughout the year and the Board of Directors joins me in expressing sincere appreciation.

Respectfully,

J. Stockton Strawbridge

President.

March 28, 1957

ERNST & ERNST
PHILADELPHIA

To the Shareholders of
Strawbridge & Clothier

We have examined the statement of financial condition of Strawbridge & Clothier as of February 2, 1957, and the related summary of income, and statement of stockholders' investment for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We made a similar examination and report for the year ended January 28, 1956.

In our opinion, the accompanying statement of financial condition and related summary of income and statement of stockholders' investment present fairly the financial position of Strawbridge & Clothier at February 2, 1957, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

Ernst & Ernst
Certified Public Accountants

Philadelphia, Pa.
March 23, 1957

To the Shareholders

The financial statements contained in this report are correct to the best of my knowledge and belief.

Donald C. Mills
Vice-President and Treasurer
Strawbridge & Clothier

March 28, 1957

Summary of Income

STRAWBRIDGE & CLOTHIER

	Year Ended	
	February 2, 1957	*January 28, 1956*
Income before "Lifo" inventory adjustment and before deducting interest, depreciation, and provision for income taxes	$ 5,793,683	$ 6,255,703
Deduct:		
"Lifo" inventory adjustment	199,838	58,682
Interest	305,602	259,538
Depreciation and amortization	994,965	962,362
	$ 1,500,405	$ 1,280,582
INCOME BEFORE TAXES ON INCOME	$ 4,293,278	$ 4,975,121
Taxes on income—estimated:		
Provision for taxes currently payable:		
Federal income tax	1,859,000	2,237,000
State income tax	197,000	190,000
Provision for future income taxes (principally on installment sale gross profits)	284,000	263,000
	$ 2,340,000	$ 2,690,000
NET EARNINGS	$ 1,953,278	$ 2,285,121

See Notes to Financial Statements

Statement of

STRAWBRIDGE

ASSETS	*February 2, 1957*	*January 28, 1956*
CURRENT ASSETS		
Cash	$ 2,381,379	$ 2,831,275
Accounts receivable:		
Customers:		
Charge accounts	12,062,981	11,757,618
Installment accounts	7,893,818	6,532,029
Suppliers	374,694	297,886
	$20,331,493	$18,587,533
Less allowance for loss	425,000	425,000
	$19,906,493	$18,162,533
Merchandise inventories (Note A)	8,594,250	8,616,097
TOTAL CURRENT ASSETS	$30,882,122	$29,609,905
OTHER ASSETS		
Cash on deposit with trustee for redemption of $5.00 Cumulative Preferred Stock (Note B)	191,220	0
Miscellaneous accounts receivable and advances	60,697	67,853
Sundry investments—at cost	226,191	226,191
	$ 478,108	$ 294,044
Less allowance for loss	25,000	25,000
	$ 453,108	$ 269,044
PROPERTY, FIXTURES, AND EQUIPMENT—At cost		
Land, buildings, and equipment	33,565,600	32,670,227
Less allowance for depreciation	13,755,765	12,797,250
	$19,809,835	$19,872,977
DEFERRED CHARGES		
Prepaid expenses	568,148	497,049
Supply inventories	275,240	249,779
	$ 843,388	$ 746,828
TOTAL ASSETS	$51,988,453	$50,498,754

See Notes to

LIABILITIES AND STOCKHOLDERS' INVESTMENT	*February 2, 1957*	*January 28, 1956*
CURRENT LIABILITIES		
Notes payable:		
Short-term notes payable to banks	$ 2,000,000	$ 0
Term note installments maturing within one year	512,250	500,000
Accounts payable	3,596,584	3,685,052
Accrued accounts	782,427	744,659
Pay roll taxes and taxes withheld from employees	285,188	556,042
Federal, state, and local taxes—estimated	1,890,695	2,537,994
Deposits on U. S. Savings Bond subscriptions	34,331	32,149
Dividends payable	0	182,996
TOTAL CURRENT LIABILITIES	$ 9,101,475	$ 8,238,892
TERM NOTES PAYABLE—Portion due after one year (Note C)	5,110,250	5,500,000
RESERVES		
For future income taxes (principally on installment sale gross profits)	1,588,440	1,197,000
For deferred compensation and contingencies	225,000	175,000
	$ 1,813,440	$ 1,372,000
TOTAL LIABILITIES	$16,025,165	$15,110,892
STOCKHOLDERS' INVESTMENT		
Capital stock:		
$5.00 Cumulative Preferred Stock, par value $100.00 per share, redeemable at $105.00 per share—at February 2, 1957, authorized 83,549 shares; outstanding 76,017 shares, after deducting 1,031 shares in treasury (outstanding at January 28, 1956, 78,203 shares) (Note B)	7,601,700	7,820,300
Common Stock, par value $5.00 per share—authorized 1,000,000 shares; outstanding 768,666 shares (outstanding at January 28, 1956, 732,063 shares) (Note D)	3,843,330	3,660,315
Capital in addition to par value of shares	4,158,131	3,434,374
Earnings retained for use in the business	20,360,127	20,472,873
TOTAL STOCKHOLDERS' INVESTMENT	$35,963,288	$35,387,862
	$51,988,453	$50,498,754
LONG-TERM LEASE COMMITMENTS (Note E)		

Statement of Stockholders' Investment

STRAWBRIDGE & CLOTHIER

	Year Ended	
	February 2, 1957	*January 28, 1956*
CAPITAL STOCK		
Preferred Stock:		
Balance at beginning of year	$ 7,820,300	$ 7,878,700
Less shares acquired during year	218,600	58,400
	$ 7,601,700	$ 7,820,300
Common Stock:		
Balance at beginning of year	3,660,315	3,486,010
Stock dividend	183,015	174,305
	$ 3,843,330	$ 3,660,315
CAPITAL IN ADDITION TO PAR VALUE OF SHARES		
Balance at beginning of year	3,434,374	2,774,768
Excess of amount charged against earnings retained for use in the business over the par value of Common Stock issued as stock dividend	732,060	662,359
	$ 4,166,434	$ 3,437,127
Deduct premium paid on acquisition of $5.00 Cumulative Preferred Stock for treasury	8,303	2,753
	$ 4,158,131	$ 3,434,374
EARNINGS RETAINED FOR USE IN THE BUSINESS		
Balance at beginning of year	$20,472,873	$20,148,760
Add net earnings for the year	1,953,278	2,285,121
	$22,426,151	$22,433,881
Deduct:		
Cash dividends on Preferred Stock ($5.00 per share)	382,456	392,410
Cash dividends on Common Stock ($1.00 per share)	768,493	731,934
Stock dividends declared February 17, 1956, and February 16, 1955 (one share of Common Stock for each twenty shares outstanding):		
Paid March 23, 1956—36,603 shares on the basis of $25.00 per share; paid March 25, 1955—34,861 shares on the basis of $24.00 per share	915,075	836,664
	$ 2,066,024	$ 1,961,008
EARNINGS RETAINED FOR USE IN THE BUSINESS	$20,360,127	$20,472,873
TOTAL STOCKHOLDERS' INVESTMENT	$35,963,288	$35,387,862

See Notes to Financial Statements

Notes to Financial Statements

STRAWBRIDGE & CLOTHIER

NOTE A—Inventories of merchandise on hand and in transit are priced at cost on the last-in, first-out basis, determined under principles and by the use of published indices of price changes approved by the Commissioner of Internal Revenue with respect to department stores generally. Such basis of pricing resulted in aggregate amounts for inventories at February 2, 1957, and January 28, 1956, approximately $2,188,000 and $1,988,000, respectively, less than the amounts which would have been determined under the retail inventory method applied without regard to last-in, first-out principles.

NOTE B—Sinking fund provisions of the $5.00 Cumulative Preferred Stock require that on April 1st of each year the Company shall redeem shares of such class of stock in an amount of par value equal to two per cent of the greatest amount at any time outstanding after February 1, 1948, and prior to the date of such redemption. In compliance with such provisions, 1,799 shares of the $5.00 Cumulative Preferred Stock were retired on April 1, 1956. On February 1, 1957, cash was deposited with trustee for the retirement of like amount of shares on April 1, 1957.

Dividends on the $5.00 Cumulative Preferred Stock have been paid to January 2, 1957, a dividend date.

NOTE C—The portion of term notes due after one year (amounts due within one year are included in current liabilities) consists of $110,250 payable to a bank in eighteen quarterly installments of $6,125 each, commencing March 1, 1958, and $5,000,000 payable to a bank and insurance company in periodic installments, commencing March 1, 1958, over a period of twelve years. The loan agreement relating to the latter provides, among other things, that while the loan remains unpaid the Company will maintain minimum working capital of $10,000,000, and that the aggregate after January 31, 1953, of payments of dividends (other than dividends paid in capital stock of the Company) and purchases of capital stock will not exceed the sum of $4,000,000 plus the amount of earnings accumulated after January 31, 1953. The amount available for such purposes at February 2, 1957, was $7,814,954.

NOTE D—On February 20, 1957, the Board of Directors declared a dividend on Common Stock, payable in shares of Common Stock at the rate of one dividend share for each 20 shares outstanding. The dividend shares, 38,433 in number (including scrip for fractional shares), were issued on March 22, 1957. In connection with this dividend the Board of Directors authorized transfers from Earnings Retained for Use in the Business to (a) Capital Stock, the sum of $5.00 (par value) for each dividend share, and (b) to Capital in Addition to Par Value of Shares, the sum of $17.00 for each dividend share.

NOTE E—At February 2, 1957, the Company was lessee under five leases on store properties with terms, if renewal options are exercised, of not less than twenty-five years from the above date in each case. The annual rentals under these leases are conditional upon sales and the present aggregate minimum rentals under four leases are $343,000 per annum; the factors remain to be established upon which the fifth lease is to be based.

STRAWBRIDGE & CLOTHIER

BUILDERS OF
CONFIDENCE
SINCE 1868

PHILADELPHIA

ARDMORE

JENKINTOWN

WILMINGTON